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**FISCAL IMPACT STATEMENT**

**LS 6868**

**BILL NUMBER:** HB 1293

**NOTE PREPARED:** Jan 14, 2008

**BILL AMENDED:**

**SUBJECT:** Homestead deduction application.

**FIRST AUTHOR:** Rep. GiaQuinta

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill establishes a procedure for the submission of a sales disclosure form for a homestead to constitute an application for the homestead credit.

In cases where that procedure does not apply, the bill changes the deadline for application for the credit for real property from June 10 to December 31. The bill provides that the sales disclosure form must include information to allow the form to serve as the homestead credit application.

The bill also allows a county auditor to reduce the assessed value used to set tax rates to take into account standard deductions resulting from homestead credit applications filed late in the year.

**Effective Date:** Upon passage; January 1, 2008 (retroactive).

**Explanation of State Expenditures:** *PTRC and Homestead Credit:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

PTRC and Homestead credits are paid from the Property Tax Replacement Fund. In CY 2009, these payments cannot exceed \$2,028.5 M (there is currently no limit for taxes payable in CY 2010 and after). Under current law, if these payments exceed this limit in CY 2009, PTRC rates for all taxpayers would be proportionately reduced in order to keep total payments within this limit. This bill first becomes effective for taxes payable in CY 2009. If, under this bill, additional taxpayers claim the credit, PTRC rates would be

further reduced. The number of additional taxpayers who may file for the credit under this bill is not known.

Depending on the appropriation for state credits for years beginning with CY 2010, additional homestead filings could cause an increase in state expenditures.

**Explanation of State Revenues:** The state imposes levies for State Fair and State Forestry at a static tax rate. Under this proposal, the revenue allocated to these funds could decrease beginning in CY 2009 if the number of homestead-eligible taxpayers in a year increased. A taxpayer receiving the homestead credit also receives a standard deduction which can be up to a maximum of \$45,000 depending on the year. Assuming that each additional qualified taxpayer receives the full \$45,000 standard deduction, the tax base would be reduced by this amount for each taxpayer. As a result, the revenues allocated to State Fair and State Forestry would be reduced by approximately  $\$45,000 \times 0.000024$  or \$1.08 for each additional taxpayer.

**Explanation of Local Expenditures:** As of November, 1 2007, forty-nine counties currently provide additional Homestead credits that are paid with proceeds from a combination of county option income taxes (COIT) and county economic development income taxes (CEDIT). Local homestead credits in CY 2009 and later could increase if this proposal results in an increase in the number of eligible taxpayers. COIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares. CEDIT proceeds that are the result of the additional rate allowed for homestead credits may only be used for homestead credits.

**Explanation of Local Revenues:** Under current law a taxpayer may claim the homestead credit on homestead property owned on March 1 of the assessment year. The taxpayer must file an application with the county auditor of the county in which they own the property by June 10 of the assessment year.

This bill would:

- 1) Qualify an individual who resides in the homestead on December 31st of the assessment year for the homestead credit if the individual is liable for the tax even if the individual did not own the property on the assessment date;
- 2) Change the homestead credit application filing deadline to December 30 of the assessment year; and
- 3) Enable the taxpayer to use the sales disclosure form as a homestead credit application form.

Taxpayers who receive the homestead credit automatically qualify for the standard deduction. County auditors may currently reduce the certified AV that is used to calculate tax rates in order to absorb the effects expected to result from successful appeals. The maximum adjustment is the lesser of (1) 2% of total AV or (2) the amount of successful appeals in the previous year.

This bill would also allow the certified AV to be adjusted to absorb the effects of any additional standard deductions granted after AV is certified. The limit of all adjustments would be 2% of total AV and would no longer be tied to appeals in the previous year.

The reduction of assessed value to the tax base would provide a tax shift from the newly qualified homesteads to other property. The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the net change in the amount applicable to that fund.

**State Agencies Affected:** State Fair Board; DNR Division of Forestry; Department of Local Government Finance.

**Local Agencies Affected:** County Auditors.

**Information Sources:**

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.